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RUEHWL/AMEMBASSY WELLINGTON 0010
RUEHPT/AMCONSUL PERTH 1615
RUEHDN/AMCONSUL SYDNEY 2134
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C O N F I D E N T I A L SECTION 01 OF 02 MELBOURNE 000104

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E.O. 12958: DECL: 09/09/2019
TAGS: ECON ENRG ETRD EIND AS
SUBJECT: U.S. BUSINESSES ON AUSTRALIAN ETS AND THE ECONOMY

REF: A. A) CANBERRA 732
 1B. B) PERTH 39
 1C. C) MELBOURNE 95

Classified By: Justin Kolbeck, Pol/Econ Officer for Reason 1.4(d)

Summary

11. (C/NF) A number of executives from U.S. companies are concerned that murky details in Australia's proposed Carbon Pollution Reduction Scheme may lead to unintended consequences. These executives told similar stories of cutting staff and tightening belts in 2009, but are increasingly optimistic that the worst may be behind for the Australian economy. End Summary.

Mixed Feelings on ETS

12. (C/NF) At an August 13 luncheon hosted by Charge in Melbourne, U.S. business executives expressed mixed perspectives on Australia's proposed Carbon Pollution Reduction Scheme (ref. A). Craig Lovel, Huntsman's Australia and New Zealand General Manager for polyurethanes is worried about grey areas and gaps in the CPRS legislation. While he is still waiting for additional details, he is concerned that the legislation could push the chemicals industry out of Australia into neighboring Asian countries. Boeing's Chief Financial Officer, Amy Hoover, is also trying to figure out what will be required under the proposed legislation, particularly in the carbon trading scheme. An Exxon Mobil executive expressed similar concern about vague details to Consul General in a separate meeting, noting the worrying potential for gaps to be filled in later by regulators.

13. (C/NF) Other U.S. firms are more optimistic. Kellogg Brown & Root's (KBR) Director for Water and General Engineering Mark Gobbie sees opportunities to help carbon intensive companies gear up to cope with required changes under the CPRS. General Electric's (GE) Country Executive for Australia, Tim Rourke, also sees new space to provide solutions to other firms such as alternative energy products. Rourke cautioned, however, that GE's capacity to capitalize on the CPRS is contingent on clear cut and understandable policies which he felt are still lacking.

On the Australian Economy

14. (C) Caterpillar's General Manager for Underground Mining, Tami Nelson sees commodities indicators turning green. Copper prices are approaching an inflection point that will

enable Caterpillar's Australian operations to ramp up activity again. Most executives agreed that the Australian mining/commodities industry is stabilizing and are looking forward to an uptick in 2010. Dean Lomas, Director for Venture Australia (a Detroit-based components manufacturer) and Huntsman's Lovel both said that their firms continue to be hard hit by the downturn in the Australian automotive industry, but predict that the sector is beginning to recover thanks to effective government stimulus and improving confidence levels. Huntsman later announced on September 8 that it would close its 200-person Melbourne polystyrene plant. Caterpillar has reduced its staff by approximately 50 percent since late 2008.

15. (C) Boeing and KBR's Australian businesses continue to be buoyed by a defense industry that is holding up globally, but are taking defensive positions by reducing expenditures and conserving cash. KBR in particular is looking forward to capitalizing on the Gorgon natural gas project in Western Australia (ref. B). GE sees similar opportunities in the Gorgon project as well growing their wind power and alternative energy businesses in Australia.

Frustrated by Labor Unions

16. (C/NF) All seven of the executives, including Paccar's (Kenworth) Joe Rizzo, expressed a level of frustration regarding Victoria's influential labor unions (ref. C). These business leaders see a key weakness in Australia's "inflexible labor force" which still maintains anachronistic

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views on workplace entitlements. Executives said that they had recommended moving some operations to other subsidiaries in places like South Africa, India and China in order to avoid costly labor disputes in Australia. While tougher business conditions have tempered some unions' expectations, there was a level of frustration by these business leaders that labor unions were willing to draw out disputes even if it led to their companies' collapse.

Comment

17. (C) These executives' perspectives on the Australian economy track well with what we have heard from local firms and observers on the economy. There is still some concern of a second global financial shock, however, Melbourne commentators are adopting a more optimistic view on the Australian economy. There is even some speculation that Australia may dodge a "technical recession" (two consecutive quarters of GDP contraction) due to strong business investment numbers coming out of Victoria. Uncertainty surrounding Australia's Carbon Pollution Reduction Scheme is a frequent gripe here, however, and we are told that businesses are putting pressure on the Rudd government to fill in these perceived gaps and grey areas.

THURSTON